UK & Ireland Policy – Executive Remuneration

Background and Overview

Executive pay remains a high-profile governance topic in the UK. Among other things, pay arrangements are sometimes seen as overly complex and as not fulfilling their purpose. In July 2016, the Executive Remuneration Working Group established by the Investment Association, which is the representative body for the UK asset management industry, recommended that company remuneration committees should choose a pay structure which is appropriate for the company's strategy and business needs. Such a structure may be different to the salary/bonus/LTIP model typically followed by many UK companies, and could include grants of non-performance related restricted shares. Ahead of 2017, when most UK companies' remuneration policies are due for reapproval by shareholders, ISS wants to clarify its approach when considering schemes which sit outside of the typical UK model.

Remuneration committees are responsible for setting the remuneration policy and for its implementation. Some remuneration committees have lost the trust of shareholders where serious issues have been raised over a number of years, and some investors believe that voting against the chair of the remuneration committee is an appropriate response in these circumstances. Such an approach is also recommended in the voting guidelines of the Pensions and Lifetime Savings Association, another UK representative body.

Key Changes Under Consideration

The updated ISS UK & Ireland policy will clarify that when forming a view on new remuneration arrangements, ISS will pay particular attention to the following points:

1. How far the proposals are consistent with the good practice principles set out in ISS voting guidelines;
2. The linkage between the proposals and the company's strategic objectives;
3. Whether or not the proposals have an appropriate long-term focus;
4. The extent to which the proposals help simplify executive pay; and
5. The impact on the overall level of potential pay. Any proposal which provides for a greater level of certainty regarding the ultimate rewards should be accompanied by a material reduction in the overall size of awards.

Furthermore, ISS is considering recommending a vote against the re-election of the chair of the remuneration committee (or, where relevant, another member of the remuneration committee) in cases where a serious breach of good practice is identified, and typically where issues have been raised over a number of years.

Intent and Impact

At this stage, an assessment of the impact is not possible as it will depend on companies' proposed pay structures. The proposal to extend voting on remuneration issues to the chair of the remuneration committee is intended to be used in exceptional circumstances only, and (normally) after identifying issues over more than one year. It would not be the case that every recommendation against a remuneration policy or remuneration report item would be accompanied by a recommendation against the remuneration committee chair.

Request for Comment

- What other issues should ISS take into account when assessing unusual incentive structures, such as those proposed by the Executive Remuneration Working Group (e.g. how far should the overall remuneration package be reduced to reflect the greater certainty of reward introduced via non-performance related restricted share schemes)?
- If serious concerns have been raised with pay practices over a number of years but the remuneration committee chair position is being rotated, do you support the view that the longest serving member of the Remuneration Committee should be held accountable? Would you sometimes consider that the board chair should also be held accountable? If yes, please explain.